



FORRESTER LEADERSHIP BOARDS
The CMO Group

Report Brief: Targeting New Customer Segments

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TABLE OF CONTENTS

Research Premise And Background..... 1

Making Decisions About Targeting New Customer Segments 2

Key Best Practices..... 3

Best Practices: Gaining Organizational Support..... 4

Best Practices: Building Customer Insights 5

Best Practices: Executing Targeting Strategies 6

Best Practices: Generating Awareness With A New Segment 7

More Information..... 8

RESEARCH PREMISE AND BACKGROUND

Organizations target new customer segments for a variety of reasons: to leverage an opportunity with a growing customer segment, to better target one's high-value customers to increase revenues per customer, to build the brand, or to disrupt the marketplace to create a new opportunity for the organization. For all of these reasons, the main strategic objective is driving growth. CMOs have an opportunity to significantly contribute to the company's growth imperatives by effectively targeting new customer segments.

"One size fits all" does not apply to developing strategies and plans for targeting new customer segments. These decisions rely on the unique positioning of an organization's brand, its own customers and their needs, the particular competitive landscape and market trends, and the internal resources available and constraints in place. Because of the individual issues that a CMO must consider, each CMO must find his or her own path for targeting new customer segments. These decisions may lead to launching a new product, experimenting with a new channel, building a new brand, creating a new marketing campaign, forming new strategic alliances, or creating unique experiences for the various customer segments. Regardless of the end result, CMOs who successfully reach and target new customer segments take a rigorous approach and evaluate all of the considerations and issues.





In the report, "Targeting New Customer Segments," we examine best practices for CMOs to effectively grow the business and gain market share by effectively targeting new customer segments. To complete this research, we interviewed chief and senior marketing executives from a wide variety of industries, and the full report includes 10 case studies from companies such as Countrywide Financial, Nintendo, and Best Buy.

This overview provides a glimpse into the content of the full report with some of the highlights of our key takeaways, frameworks, and case studies.

MAKING DECISIONS ABOUT TARGETING NEW CUSTOMER SEGMENTS

The process of determining the right strategy and tactics for targeting new customer segments is a highly business-specific undertaking. CMOs cannot simply take a copycat approach to those of their competitors to effectively reach a new audience and address that audience’s needs in a compelling way. CMOs have targeted new segments in a variety of ways — from creating a new product to launching a new brand to leveraging new channels or partners to developing new experiences or new positioning and marketing messages. To develop the right approach and combination of tactics for the business, CMOs need to focus on four key decision factors: brand equity; customer behaviors, needs, and trends; competitive landscape; and internal resources and constraints. Ignoring any one of those components can take marketers down a decision path that will lead to suboptimal results.

Figure 1 Key Decision Factors

 Brand equity	 Customer behaviors, needs, and trends	 Competitive landscape	 Internal resources and constraints
<ul style="list-style-type: none"> • Does the current brand value proposition address the needs of this customer base? • Does the brand need repositioning? • Will customers in this segment find targeted brand efforts believable? • Can the brand speak to both current and new customer segments in a believable way, without alienating either segment? 	<ul style="list-style-type: none"> • What is the desired customer segment? • What is the short-term and long-term opportunity with the target customer segment? • Is there an opportunity to acquire new customers or enrich with current customers? • What are the values, lifestyles, and needs of this target group? • What societal trends are affecting this segment? • Are new solutions required to address this segment’s needs? 	<ul style="list-style-type: none"> • Are competitors already addressing this segment? • Is there an opportunity to disrupt the market of an existing category? • Can the organization differentiate its offering from the competition? • What are the competitive trends that will change the market landscape going forward? 	<ul style="list-style-type: none"> • What type of budget exists for the development of new solutions for this customer segment? • What type of training do salespeople and other internal employees need? • Will the organizational structure support the efforts to target a new segment? • Does the organization have competencies to develop new solutions or products to meet customer needs? • Does the management team support the efforts to target new segments?

KEY BEST PRACTICES

To effectively choose the right path and best address the specific needs of the target customer segment, CMOs focus on both internal and external elements. Through our research, we identified best practices at four key stages of targeting new customer segments: 1) Gaining organizational support; 2) building customer insights; 3) executing targeting strategies; and 4) generating awareness with new customer segments.

Figure 2 Best Practices For Targeting New Customer Segments

<p>Gaining organizational support</p>	 <ul style="list-style-type: none"> • Take the time to sell the targeting strategy internally • Focus on change management to address future target segment needs • Educate channel partners to reach the right customers
<p>Building customer insights</p>	 <ul style="list-style-type: none"> • Create actionable customer segmentation schemes • Use a variety of resources and analyses to build new segment insights • Take an anthropological approach to understanding new customer segments
<p>Executing targeting strategies</p>	 <ul style="list-style-type: none"> • Shift budget to more segment-specific direct marketing • Use testing to determine the best tactics and channels to reach new segments
<p>Generating awareness with a new segment</p>	 <ul style="list-style-type: none"> • Make dramatic changes to your approach to the market • Leverage advocates to continue reaching target customers

BEST PRACTICES: GAINING ORGANIZATIONAL SUPPORT

CMOs cannot target new customer segments alone; they need the support of the entire organization to effectively deliver the products, messages, and experiences that are relevant for the new segment.

Successful marketers engage the management team, employees at all levels, and channel partners with the targeting strategy and with the new target segment. The following is a sampling of key actions for engaging these individuals:

- **The management team.** Send out key members of the management team to engage in regular conversations with the new customer segment. Let them become the voice of the customer in the organization. In one research example, the management team participated in regular road shows to go out and meet with key customers in each of the communities served by the organization. These “meet and greets” not only showed these customers that the organization cared about what they needed, but also gave these members of the management team first-hand stories of customer needs, which they used in making operating decisions going forward.
- **Employees.** Involve employees at all levels in the process of building segment insights and brainstorming ideas for how to meet those customers’ needs. Assign a segment leader to be an internal champion and bring the new segment to life with videos, stories, and pictures. To successfully get employees on board, CMOs and segment leaders need to understand that it takes time to get employees on board; the overall experience of targeting the new segment will only be successful if those employees are fully aware and supportive of the strategy and knowledgeable about those customers’ needs.
- **Channel partners.** Provide channel partners with key information to help them distinguish between the needs of the current base of customers and the new segment of customers. By giving information such as communications templates and guidelines for interactions with the new customer segment, marketers are better preparing their channel partners to be relevant in their messaging to these new customers. In addition, sharing customer research and data helps these intermediaries to better understand why a particular segment is being targeted and the opportunities that exist with that segment.

BEST PRACTICES: BUILDING CUSTOMER INSIGHTS

CMOs have a wide array of options for gathering customer insights and building up their knowledge of a new target segment's key attitudes and behaviors. Some of these tactics include:

- **Online experimentation.** One retailer used social networking sites, such as MySpace.com, to test different promotions and offers to understand what products and messages worked best with the new, younger demographic that it was targeting. Through its Web analytics, the marketing team can gather a greater depth of insight into what drives purchase behavior from this group of consumers.
- **Leveraging employees as consumers.** When targeting a new customer segment, many organizations look internally to find their own employees who meet the characteristics of that segment. Marketers have leveraged employees through online panels to gather insights about their needs or tested new concepts or marketing messages with internal focus groups to get additional feedback from individuals who fall within the target segment.
- **Ethnographic studies.** When going after a new target segment, successful marketers immerse themselves into the communities and lifestyles of the individuals within this segment. Through these ethnographic studies, marketers can gain valuable insights on unmet needs, preferences, and motivations behind certain behaviors.
- **Compilation of data from multiple internal sources.** Organizations often have underutilized internal data that holds the key to many customer insights. One retailer used its customer loyalty program data in combination with attitudinal insights from a large-scale survey to understand variables such as customer value, shopping need, attitudes, and desired benefits from shopping and purchasing. These variables then helped the organization build a multidimensional segmentation model that provided many lenses to view customers and provided ways to identify and target specific segments, beyond just the generic demographic segments.

BEST PRACTICES: EXECUTING TARGETING STRATEGIES

When CMOs are ready to target their newly sought-after customer segments, they often need to look beyond the same “old tricks.” They need to make a number of changes internally as well as test a number of external approaches to understand what works best for the new customer group. A sampling of the actions taken by CMOs in our research includes:

- Hiring a sales team experienced in selling to a new customer audience.
- Aligning the best sales team members to the new customer segments with the highest overall value to the organization.
- Testing new channels to reach specific subsets of the customer base and leveraging channel experts on the marketing team to determine what to test and try online.
- Segmenting multicultural groups beyond just the general demographic segmentation to get at the specific needs of each audience and increase relevance of marketing messages.
- Creating local-level marketing plans to address many unique segments.
- Using trial-and-error approaches to gather data and better understand what marketing tactics work best to address multicultural segment needs.
- Leveraging senior-level management to join the efforts in targeting specific segments by going out into the communities and interacting with customers in these new target segments.

BEST PRACTICES: GENERATING AWARENESS WITH A NEW SEGMENT

When targeting new customer segments, CMOs first need to generate awareness for their brands and products with this new audience. When shifting to target an entirely new and distinct customer segment, CMOs need to be prepared to take risks and make dramatic cultural and strategic changes. For one organization in our research, the team realized the need to move from targeting a market of primarily young males to a more expanded audience that addressed tween girls and adults older than 30. To effectively address the needs of this new audience, the organization made significant changes with new brands, products, and marketing channels.

Figure 3 Dramatic Changes Made To Generate Awareness With New Audiences

Tactics	What was done?
New brand names	Abandoned No. 1 brand name to start fresh with the new audience.
New channels	<ul style="list-style-type: none"> • Leveraged user-generated content on YouTube and social networking sites to spread the word about products specifically addressing the new customer segment. • Identified highly influential bloggers within the target segment of moms and treated them to parties to test the products, transforming these individuals into brand advocates who blogged about the products and helped spread the word. • Advertised on new television channels and during new programs that were not geared towards the traditional young male audience.
New products	<ul style="list-style-type: none"> • Created products that addressed the specific psychological needs of tween girls and adult audiences. • Revamped market research processes by creating war rooms to gather insights on the new audiences, rather than relying on employees who were part of the traditional past customer segment. • Brought the new segments to life with immersion workshops to build employees' understanding of the values and lifestyles of the new audience when developing products.

MORE INFORMATION

The full report on “Targeting New Customer Segments” was prepared for The CMO Group and is available only to Forrester Research Leadership Boards members. The CMO Group is an executive-level peer knowledge community for marketing leadership. The program strives to help marketers become more effective through a combination of member-driven best practice development and Forrester’s analyses of how the marketing landscape is changing and evolving and what marketers need to do to adapt and succeed today and in the future.

As part of The CMO Group program, Forrester provides exclusive research on best practices covering topics that the members select as most important and relevant. Future reports include “Developing And Utilizing Marketing Dashboards,” “Building Socially Responsible Brands,” and “Optimizing The Marketing-Sales Relationship.” CMO Group members also receive access to a broad array of Forrester reports on various topics, including marketing, strategy, the consumer and business landscapes, and technology, as well as structured, facilitated interactions with their peers and Forrester’s analyst community.

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